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Governmental Thrift Through a National Budget

By CHARLES WALLACE COLLINS

Author of *National Budget System and American Finance*

THE American government is the greatest spender in the world. In the past, before the war, expenditure of public money attracted little or no attention in this country. Our vast sources of national wealth had hardly been touched. The money for the running of the government was raised largely by indirect taxation and the people did not feel that they were really supporting the government. Many times in the quarter century preceding the late war the treasury received more money than was necessary to meet appropriations by Congress. In other words we were often embarrassed by a surplus in the treasury. This situation was due largely to a tariff policy which was formulated and put into effect not primarily with the idea of supporting the government but for other reasons ordinarily described under the term "protection." The revenue side of financial administration was not directly related to the expenditure side.

During this period there was no demand for economy in the administration of the government made by the people. The question of financial policy from the standpoint of government economy never entered into political discussions either in the congressional or presidential elections. No emphasis was laid on the method of procedure in arriving at the financial needs of the government or on the method of procedure of Congress in granting funds for this purpose. We felt that we were too rich to bother about these matters. The expenditure of a few hundred

million dollars or even a billion dollars appeared of no great consequence to a strong young nation in possession of the richest country in the world.

Thus grew up without studied adaptation a system of financial procedure which is peculiar to this government. It was not based upon a scientific study of the problem of budgetary procedure but represents accidental accretions and circumstantial adjustments from time to time without coördination. The method has never at any time proven satisfactory to either the executive or to Congress but nevertheless, being a practical people, we were able to make it work. We even financed the war under it without plunging the government into bankruptcy, but surely no other nation could have stood the strain.

NATIONAL FINANCING IN THE PAST

A brief description of this system, or lack of system, may be in point. In the first place the bureau chiefs, or such other heads of the various organization units which have disbursing officers who spend the money appropriated out of the public treasury, make estimates embodying their requests for the expenditure of money for the coming fiscal year. These estimates are drawn up in the early fall and are required to be transmitted to the Treasury Department by October the fifteenth. They represent the plans and ambitions of the bureau chief. He is, if he is a good official, naturally interested in the expansion and development of the service under his jurisdiction. The greater

his service the more honor to him. He does not make his estimates with a view to the total expenditure of the government. He is interested in his own bureau. According to the practice of Congressional committees there is a strong likelihood that some reduction will be made in his estimates. In anticipation of this the practice has grown up of estimating rather liberally so that if cuts are made ample funds may be left to carry out the plans of the bureau.

The heads of the departments have the legal authority to revise the estimates of the various bureaus under them. In fact it is the assumption of the law that these bureau estimates are really the estimates of the head of the department. But the head of the department has no special organization to enable him to make this revision and he certainly has no time to do it himself. In some cases he may order certain reductions in the estimates of a bureau but this is exceptional. There is no systematic attempt to supervise and restrict the demands of these various bureaus for money out of the Treasury.

According to law these estimates for all of the departments and establishments of the government are sent in to the Secretary of the Treasury. He is required to classify them and have them printed in what is known as the Book of Estimates. The Secretary of the Treasury has no power to review the estimates nor can he make or suggest reductions. His relationship to them is mechanical and formal.

The Secretary of the Treasury transmits the Book of Estimates to the House of Representatives. He does not include in it an estimate of the revenues and suggestions for new taxation if necessary. When the estimates

reach the House they are parcelled out to a number of independent appropriating committees. These committees hold hearings on the estimates relating to the particular services over which they have jurisdiction. They call before them the various officers of the government responsible for the preparation of the estimates in the first instance. They are submitted to a rather lively examination the purpose of which is to discover the facts upon which such estimates are based. It is customary at these hearings for a contest to arise between the bureau chief and the committee—the bureau chief, on the one hand, trying to sustain his position in order to secure the amount estimated and the committee, on the other hand, trying to find the weak spots in the position of the bureau chief. The bureau chief has the advantage, in that he alone is in possession of the intimate knowledge of the operations of his bureau upon which knowledge alone a correct basis for an intelligent estimate can be found. It sometimes happens that committees, in utter despair of getting at the real situation, will make arbitrary cuts in the estimates in order to reduce expenditures.

Each of these appropriating committees of the House, after the close of the hearings, reports out one or more appropriation bills; and these, fourteen in number followed by one or more deficiency bills later in the year, make up the sum total of the appropriations out of the public treasury for the annual support of the government. These committees do not consult with each other in the course of their work nor do any of them attempt to gain a view of the finances of the government as a whole. When the House has passed an appropriation bill it goes

to the Senate where the same process is followed as to the hearings and reports.

The defects in this system of finance are readily seen. The observer is struck with the astonishing lack of control both in the executive departments and in Congress. At no stage, from the preparation of the estimates to the final passage of appropriation bills, is there any fixing of definite responsibility or any view of the total demands which are being made upon the national treasury. There is no plan and no real financial policy. No one knows until near or after the close of a session of Congress how much money must be raised in taxation from the people to meet the needs of the government.

WHERE THE FAULT LIES

Who is to blame for this state of affairs? It has become popular of late to criticize Congress for our system of finance. Many writers are indulging in wild statements about the extravagance of Congress and the supposed orgy of "pork-barrel" and "log-rolling" legislation. Some of these writers are even attempting to discredit Congress before the American public. This crusade against Congress is based upon a misconception of the real facts of the situation. Congressmen are not reformers. There are, indeed, always a few reformers in Congress but that is not their business. The American congressman is elected by a local constituency and he is sent to Washington to represent primarily the interests of his district. He is, it is true, a national legislator and the opinion of Congress as a whole will always conform very closely to the public opinion of the American people. But if he fails to represent the local

interests of his district another man will be elected who will do so.

Congress is to blame for not providing a modern and business-like budget system for the administration of national finance only in the sense that Congress alone can change and correct the existing system,—and who can say that there has been a nation-wide demand for such a reform? Out in the various congressional districts there has not been in the past any considerable agitation over the necessity for a budget system. The demand for action along these lines has come chiefly from academic sources, from writers interested in the science of public finance, and from certain highly organized commercial organizations in the eastern part of the United States.

Furthermore it seems not to be generally understood that Congress, under the present system, is the only branch of the government which has consistently fought for economy in the administration of the government. It has always cut the estimates turned in by the executive branch of the government. There has not been a single year within our recent history in which the appropriations made by Congress were not less by several millions than the executive estimates for the support of the government.

Great emphasis has been laid on the extravagance and wastefulness of Congress through "pork-barrel" and "log-rolling" methods of appropriating money for public buildings and river and harbor improvements. The fact is, that appropriations for these purposes amount to a very small per cent of the total appropriations,—probably not more than 1 or 2 per cent in the past and for the future they will be perhaps less than 1 per cent. But even these appropriations are not made

without official estimates in each case.

Criticisms could be directed at the executive branch of the government with better grace. The executive bureaus are constantly reaching out for more money and sending estimates in to Congress for greater and greater demands upon the public treasury. There has been no really concerted effort on the part of the executive branch for economy in expenditures. It is nobody's business there to take this point of view and the tendency, therefore, of the executive departments is wholly towards greater expansion and greater demands for money.

WAR AND NATIONAL FINANCE

Our entry into the war has completely changed the financial situation. We have emerged from the conflict with a public debt of about \$26,000,000,000 calling for an annual expenditure for interest, of more than \$1,000,000,000. We are further faced with a vastly increased current annual expenditure and it is doubtful if our total appropriations for the support of the government will be less than \$5,000,000,000 for several years to come. This means for the American people a continuation of high taxes in order to furnish the necessary revenue and the continuation to a considerable extent of the high cost of living.

For the first time in our history the people are interested in financial policy and financial reform. There is an increasingly strong demand for economy in financial administration in order to protect the Treasury. The people are realizing as never before that it is they who are supporting the government. The idea of a budget system is beginning to gain wide prevalence. The Sixty-Sixth Congress almost immediately upon convening began to take ac-

tion looking toward the reorganization of our financial system. The House and the Senate each appointed a select committee to devise a budget plan and the plan reported out by the House committee was adopted by the House October 22, 1919. This plan is embodied in the so-called "Good Bill" introduced by Chairman Good in May, 1919. Chairman McCormick of the Senate committee has also introduced into the Senate a budget bill similar to the plan introduced by him into the House in 1918.

PLANS FOR BUDGETARY REFORM

Both of the plans embody the general principles of budgetary reform as advocated by economists and students of finance for many years past. They include the installation of machinery insuring centralization of executive responsibility and control. The President is to submit to Congress at the beginning of each session a national budget which shall contain on the one hand a revised and coördinated statement of the financial needs of the government in the form of estimates of expenditure, and on the other hand an estimate of the revenues of the government with recommendations for new taxation when the estimated revenues appear insufficient to meet the estimated expenditures. The detailed work of the revision and the coördination of the estimates will be done through a budget bureau situated either in the office of the President or in the Treasury Department. This bureau is to have a permanent personnel of highly trained financial experts and economists who will be protected in their positions by the civil service rules.

These plans provide also for an independent audit of the government accounts which is to be accomplished by

consolidating the existing audit forces which are now under the executive and putting them under an independent establishment at whose head shall be a Controller-Auditor General. The purpose of this is to furnish an independent instrument of criticism of the executive expenditures and a report upon them to Congress.

Such in brief, is the kind of budget system which is likely to be adopted in the near future for the federal government. Its beneficial effects can be readily seen. It will abolish nearly all of the vicious practices so loudly complained of at the present time. It would be a step of the greatest importance in the direction of national thrift. The bureau estimates would be scrutinized and controlled at their source. They would be made with reference to the needs of the bureau in its relation to the needs of the government as a whole. When the estimates reached Congress in the form of a business-like financial program,—that is a budget,—they would have already been reduced to the *bona fide* needs of the government. They would not be as now a conglomeration of unrevised departmental requests but would be a scientific presentation of a well thought out plan embodying in one single, simple and intelligible statement the financial policy for which the President is willing to assume responsibility before the American people. The treatment of this budget by Congress in the same centralized way insures here also a definite fixing of responsibility and a unity of legislative action.

The independent audit completes the circle of control by providing a constant and alert critical organization which will report to Congress and to the public any deviation by the executive spending officers from the letter

or the spirit of the appropriation laws.

The taxpayer may rest assured that in the near future there will be in vogue in the federal government a system of financial administration, known as the budget system, which will, as near as system can guarantee that no money shall be taken from the people except that it be to meet a real need of their government. The stream of revenue which must be poured into the national treasury, in many cases at a sacrifice by the taxpayer, for many years to come, will be protected from wild and extravagant demands of over-reaching executive bureaus.

LIMITATIONS OF A BUDGET SYSTEM

No system, however, no matter how well thought out will produce in itself absolutely satisfactory results. It will be necessary for the American people to lend their strong moral support to Congress in the working out of this great reform. They must abandon whatever is left of their local point of view of spending money out of the national treasury. A national financial policy looked at from the point of view of national betterment is possible only through the coöperation of the rank and file of our vast citizenship who control the activities of the membership of the two houses of Congress.

It is not to be expected that a budget system will cause any considerable reduction in the total expenditures of the government. It is not claimed that this reform will bring the amount of appropriations anywhere near to where they were at the outbreak of the war. Expenditures depend upon the policy of the party in control of the government for the time being. If it be one of retrenchment, expenditures naturally would be reduced. If on the other hand it be a policy of ex-

pansion, causing the government to enter into new fields of service they will be proportionately greater.

The budget system as a means of financial administration does not answer the question as to what services the government shall undertake year by year. That is a question of politics and one the decision of which must be made by the people at the polls. An extravagant government in the political sense may be a government which has the approval of the majority of the voters. The only protection from this sort of extravagance is the inevitable criticism which arises from an alert minority, a criticism which if well founded may result in an overthrow of the majority at the next election.

What the budget system is intended to do, whether under a policy of expansion or under a policy of retrenchment, is to guarantee that the estimates presented to Congress are economical and are properly coördinated with each other in their relation to the total proposed expenditure, and further, to the estimated revenue to be raised by taxation. It is possible, therefore, to have sound business-like estimates under what might be regarded as an extravagant financial policy. The budget system has done its part when it has given this protection and when it has presented a picture of the finances as a whole to the people and to Congress each year before any legislative action has been taken.